

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

TOWNSHIP OF SYLVAN

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED MARCH 31, 2006

TOWNSHIP OF SYLVAN

TOWNSHIP OFFICIALS

Supervisor - Michael Williams
Clerk - LuAnn Koch
Treasurer - Arlene Grau

TOWNSHIP BOARD

Arlene Grau
LuAnn Koch
Patrick Merkel
David Solo
Michael Williams

TOWNSHIP AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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PFEFFER ■ HANNIFORD ■ PALKA
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September 25, 2006

Board of Trustees
Township of Sylvan
18027 Old US 12
Chelsea, Michigan 48118

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Sylvan as of and for the year ended March 31, 2006, which collectively comprise the Township of Sylvan's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Sylvan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Sylvan as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on pages 7 through 11 and 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township of Sylvan's basic financial statements. The accompanying supplementary is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, such as the combining statements and individual fund statements, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis

March 31, 2006

Within this section of the Township of Sylvan's annual financial report, the Township's management is providing a narrative discussion and analysis of the financial activities of the Township for the fiscal year ended March 31, 2006. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Township's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Township's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The Township also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Township's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Township's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Township-wide statement of position presenting information that includes all the Township's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township as a whole is improving or deteriorating. Evaluation of the overall health of the Township may extend to various nonfinancial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Township's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Township's distinct activities or functions on the revenues generated by the Township.

Governmental activities include such activities as general government, public safety, and planning and zoning departments. Fiduciary activities such as tax collection are not included in the government-wide statements since these assets are not available to fund Township programs.

The Township's financial reporting includes all the funds of the Township (primary government) and, additionally, organizations for which the Township is accountable (component units).

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Township uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Township's most significant funds rather than the Township as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the combining statements later in this report.

The Township has two kinds of funds:

Governmental funds are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail its relation to net assets.

Fiduciary funds are reported in the fiduciary fund financial statements, but are excluded from the government-wide statements. Fiduciary fund financial statements report resources that are not available to fund Township activities.

Previously, the Township had recorded a business-type fund, but the Township has later deemed this to be a governmental fund. All adjustments to reclassify this fund are recorded in the current year's activities.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity.

Major funds are reported in the basic financial statements as discussed. Combining and individual statements and schedules for non-major funds are presented in a subsequent section of this report.

Financial Analysis of the Township as a Whole

The Township's net assets at the end of the fiscal year were a deficit of \$3,310,034. This is a substantial decrease over last year's net assets of \$12,354,401 primarily due the prior period adjustment of \$15,101,749. This adjustment was to reclassify the Township's Water and Sewer Fund from a business-type fund into a governmental fund. As consistent financial data is accumulated the Township will provide comparative data.

The following tables provide a summary of the Township's financial activities and changes in net assets:

Summary of Net Assets

	<u>3/31/2006</u>
Current and other assets	\$ 9,839,747
Capital assets	887,517
Total assets	<u>10,727,264</u>
Accounts payable and other current liabilities	322,988
Contracts payable	13,714,310
Total liabilities	<u>14,037,298</u>
Net assets:	
Invested in capital assets, net of related debt	887,517
Unrestricted (deficit)	(4,197,551)
Total net assets (deficit)	<u><u>\$ (3,310,034)</u></u>

Summary of Changes in Net Assets

	<u>3/31/2006</u>
Revenues:	
Program revenues	
Charges for services	\$ 153,301
Operating contributions	1,076,000
General revenues	
State shared revenue	187,670
Property taxes	172,385
Interest income - cash and equivalents	19,703
Interest income - special assessments	563,473
Franchise fees	12,823
Other income	37,727
Total revenues	<u>2,223,082</u>
Expenses	
General government	365,014
Fire protection	141,061
Public works	1,663,130
Interest on long-term debt	616,563
Total expenses	<u>2,785,768</u>
Changes in net assets	(562,686)
Beginning net assets	12,354,401
Prior period adjustment	<u>(15,101,749)</u>
Ending net assets (deficit)	<u><u>\$ (3,310,034)</u></u>

Financial Analysis of the Township's Funds (Modified accrual basis)

The Township of Sylvan reported two major funds for the year ended March 31, 2006. These funds included:

- General Fund
- Water and Sewer Debt Service Fund

The General Fund increased its fund balance by \$68,150. This is typical for the size of the entity and in line with expectation and performance from the previous year in which it had added \$67,148 onto its fund balance.

The Water and Sewer Debt Service Fund had expenditures over revenues totaling \$281,910 to decrease its fund balance to \$1,957,886 at March 31, 2006. A prior period adjustment of \$8,400,756 was made to this fund to convert this fund into a debt service fund. Previously, this fund was recorded as a business-type fund. The Sylvan Township Water and Sewer Authority is responsible for managing and maintaining these assets and should record these capital assets, not the Township.

General Fund Budgetary Highlights

The Township approved a budget prior to the start of the fiscal year, and made immaterial amendments to bring it closer to fiscal reality. One major amendment was to account for increase professional fees incurred.

Capital Asset and Debt Administration

The Township did not acquire any capital assets during the year. Total depreciation expense for the year was \$27,429 and was assigned to the general government activity in the Statement of Activities. The capital assets previously reported by the Township related to the water and sewer system activities have been removed and placed on the Sylvan Township Water and Sewer Authority's financial statements.

The Township issued no additional debt, but did reduce the contracts payable by \$562,925. Total amount of debt obligations were \$13,714,310 as of March 31, 2006.

Economic Conditions and Future Activities

The Township has \$13,642,310 contracts payable to Washtenaw County for its portion of the construction of the utility systems operated by the Sylvan Township Water and Sewer Authority as March 31, 2006. However, the Township only had \$8,901,575 of cash and special assessment assets to meet these future obligations. This debt was incurred under the premise that new users would be forthcoming to pay connection fees to remedy this gap between assets and liabilities. Projections of the debt service show a possible cash flow deficit if new users are not added to the system or current users aren't re-assessed.

Contacting the Township's Financial Management

This report is designed to provide a general overview of the Township's financial position and comply with finance-related regulations. If you have any further questions about this report or request additional information please contact the Township of Sylvan at 18027 Old US 12, Chelsea, Michigan 48118.

BASIC FINANCIAL
STATEMENTS

GOVERNMENT-WIDE
FINANCIAL
STATEMENTS

TOWNSHIP OF SYLVAN
STATEMENT OF NET ASSETS
MARCH 31, 2006

	<u>Primary Government</u>
	<u>Governmental Activities</u>
 <u>ASSETS</u>	
ASSETS	
Cash and cash equivalents	\$ 2,368,668
Receivables	
Taxes	8,429
Intergovernmental	
State shared revenues	31,090
Special assessments	6,949,491
Accounts	6,682
Authority	363,545
Bond discount - net of amortization	111,842
Capital assets - net of depreciation	<u>887,517</u>
Total assets	<u>10,727,264</u>
 <u>LIABILITIES</u>	
LIABILITIES	
Accounts payable/accrued expenses	267,488
Deposits	55,500
Contracts payable	
Current	499,109
Noncurrent	<u>13,215,201</u>
Total liabilities	<u>14,037,298</u>
 <u>NET ASSETS (DEFICIT)</u>	
NET ASSETS (DEFICIT)	
Invested in capital assets, net of related debt	887,517
Unrestricted (deficit)	<u>(4,197,551)</u>
Total net assets (deficit)	<u>\$ (3,310,034)</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SYLVAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Programs Revenues</u>		<u>Total</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Contributions</u>	
Governmental activities:				
General government	\$ (365,014)	\$ 153,301	\$	\$ (211,713)
Fire protection	(141,061)			(141,061)
Public works	(1,663,130)		1,076,000	(587,130)
Interest on long-term debt	<u>(616,563)</u>	<u> </u>	<u> </u>	<u>(616,563)</u>
Total governmental activities	<u>\$(2,785,768)</u>	<u>\$ 153,301</u>	<u>\$ 1,076,000</u>	<u>(1,556,467)</u>
General Revenues				
Property taxes				172,385
State shared revenues				187,670
Interest income - cash and equivalents				19,703
Interest income - special assessments				563,473
Rental income				9,550
Franchise fees				12,823
Other income				<u>28,177</u>
Total general revenues				<u>993,781</u>
Changes in net assets				(562,686)
Net assets, April 1, 2005				12,354,401
Prior period adjustment				<u>(15,101,749)</u>
Net assets (deficit), March 31, 2006				<u>\$(3,310,034)</u>

The accompanying notes are an integral part of these financial statements.

FUND
FINANCIAL
STATEMENTS

TOWNSHIP OF SYLVAN
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2006

	<u>General</u>	<u>Water and Sewer Debt Service</u>	<u>Total</u>
<u>ASSETS</u>			
ASSETS			
Cash and cash equivalents	\$ 386,584	\$ 1,982,084	\$ 2,368,668
Receivables			
Taxes	8,429		8,429
State shared revenues	31,090		31,090
Special assessments		6,949,491	6,949,491
Utility Authority		363,545	363,545
Accounts	3,753		3,753
Due from other funds	<u>231,659</u>		<u>231,659</u>
Total assets	<u>\$ 661,515</u>	<u>\$ 9,295,120</u>	<u>\$ 9,956,635</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES			
Accounts payable	\$ 12,794	\$	\$ 12,794
Accrued interest payable		254,694	254,694
Due to other funds		228,730	228,730
Deposits - escrow	55,500		55,500
Deferred revenues		<u>6,853,810</u>	<u>6,853,810</u>
Total liabilities	<u>68,294</u>	<u>7,337,234</u>	<u>7,405,528</u>
FUND BALANCE			
Reserved for debt service		1,957,886	1,957,886
Unreserved	<u>593,221</u>		<u>593,221</u>
Total fund balances	<u>593,221</u>	<u>1,957,886</u>	<u>2,551,107</u>
Total liabilities and fund balance	<u>\$ 661,515</u>	<u>\$ 9,295,120</u>	<u>\$ 9,956,635</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SYLVAN
RECONCILIATION OF STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
MARCH 31, 2006

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balance per balance sheet		\$ 2,551,107
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds:		
Historical cost	\$ 1,079,513	
Depreciation	<u>(191,996)</u>	
Capital assets, net of depreciation		887,517
Bond discount is reported as a financing uses in the governmental funds, but are amortized over the life of the bonds in the government - wide statements.		
Bond discount	125,000	
Accumulated amortization	<u>(13,158)</u>	
		111,842
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These include:		
Contracts payable		(13,714,310)
Deferred revenues on special assessments was recognized as revenue in the government-wide statements. Assessments are income as they are assessed.		
		<u>6,853,810</u>
Net assets of governmental activities		<u>\$ (3,310,034)</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SYLVAN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2006

	<u>General</u>	<u>Water and Sewer Debt Service</u>	<u>Total</u>
REVENUES			
Taxes	\$ 172,385	\$	\$ 172,385
Special assessments		1,441,316	1,441,316
Connection fees		1,076,000	1,076,000
State shared revenues	187,670		187,670
Franchise fees	12,823		12,823
Rental income	9,550		9,550
Charges for services	153,301		153,301
Interest	7,602	12,101	19,703
Miscellaneous	<u>28,177</u>		<u>28,177</u>
Total revenues	<u>571,508</u>	<u>2,529,417</u>	<u>3,100,925</u>
EXPENDITURES			
General government	337,585		337,585
Fire protection	141,061		141,061
Public works	24,712	1,635,839	1,660,551
Debt service		<u>1,175,488</u>	<u>1,175,488</u>
Total expenditures	<u>503,358</u>	<u>2,811,327</u>	<u>3,314,685</u>
Net changes in fund balances	68,150	(281,910)	(213,760)
FUND BALANCE, APRIL 1, 2005	525,071	10,640,552	11,165,623
PRIOR PERIOD ADJUSTMENT		<u>(8,400,756)</u>	<u>(8,400,756)</u>
FUND BALANCE, MARCH 31, 2006	<u>\$ 593,221</u>	<u>\$ 1,957,886</u>	<u>\$ 2,551,107</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SYLVAN
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2006

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances – governmental funds	\$ (213,760)
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their useful lives as depreciation expense. The amount by which capital outlays exceeded depreciation is as follows:	
Depreciation expense	(27,429)
Bond discount is an expenditure in the first year for the governmental funds, but are amortized over the life of the loan in the governmental-wide statements	
Amortization expense	(6,579)
Repayment of contracts payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	
Repayment of:	
Contracts payable	562,925
Principal received on special assessments are income as they are levied annually for governmental funds, but they are income when they are levied for the Statement of Activities. Amounts are revenues when levied on the Statement of Activities, only the interest portion of the assessments are included in the fiscal period's income.	
Principal collected on assessments	<u>(877,843)</u>
Change in net assets of governmental activities	<u>\$ (562,686)</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SYLVAN
FIDUCIARY FUND
STATEMENT OF ASSETS AND LIABILITIES
MARCH 31, 2006

ASSETS

ASSETS

Cash and cash equivalents	\$ 12,577	
Due from other funds	<u>25,691</u>	
Total assets		<u>\$ 38,268</u>

LIABILITIES

LIABILITIES

Due to other funds	\$ 28,620	
Due to other governmental units	<u>9,648</u>	
Total liabilities		<u>\$ 38,268</u>

The accompanying notes are an integral part of these financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

TOWNSHIP OF SYLVAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Township of Sylvan conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. REPORTING ENTITY

The Township of Sylvan is a general law Township located in Washtenaw County in Southeastern Michigan. The Township of Sylvan's Board of Trustees are comprised of a five-member elected board.

B. BASIC FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the Township as a whole, excluding fiduciary activities. Governmental fund types are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Generally, the effect of interfund activity has been removed from the government-wide financial statements.

The government-wide Statement of Net Assets reports all financial and capital resources of the Township (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, laws, or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the Township would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

TOWNSHIP OF SYLVAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Township are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expense between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are fund financial statements for the governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Water and Sewer Debt Service Fund accounts for the activities surrounding the Township's participation in the Sylvan Township Water and Sewer Authority. This activity is funded by assessments/connection fees to pay the related debt service.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The governmental fund financial statements are prepared on a modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, licenses, fees and permits, intergovernmental revenues, charges for services and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

TOWNSHIP OF SYLVAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balances as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Township's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

Fiduciary funds account for assets held by the Township in a trustee or agency capacity on behalf of others and, therefore, are not available to support Township programs. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the Township available to support Township programs.

D. BUDGETARY DATA

The board of trustees follows the procedures as outlined in the Uniform Budgeting Manual for Local Units of Government in Michigan in the establishment of the various annual budgets.

The supervisor prepares the annual budgets through information received by the clerk. The proposed budget is then submitted for discussion and approval by the entire Township board. The budget is approved by activity. If and when it becomes necessary to amend certain amounts in the budget, a proposal outlining the desired changes is made to and approved by the Township board at any of their regular meetings.

Actual expenditures exceeded budgeted appropriations for several activities.

E. CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets whether owned by governmental activities or business-type activities, are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$500 and an estimated useful life greater than one year. Land is considered a capital asset regardless of initial cost. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

TOWNSHIP OF SYLVAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings, structures and improvements	10 to 50 years
Machinery and equipment	5 to 40 years

Any capital assets transferred between funds are transferred at their net book value (cost less accumulated depreciation), as of the date of the transfer.

F. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

H. CASH AND CASH EQUIVALENTS

The Township considers its deposits and restricted deposits and investments held with maturities of three months or less are considered to be cash equivalents.

I. INCOME TAXES

As a governmental agency, the Township is exempt from both federal income taxes and Michigan Single Business Tax.

J. BOND DISCOUNT

Bond discounts are amortized over the life of the loan on the government-wide statements, and recorded as financing uses in the year incurred.

TOWNSHIP OF SYLVAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. PROPERTY TAXES

The Township property tax is levied each December 1 on the taxable valuation of property located in the township as of the preceding December 31. Taxable values are established annually by the county and are equalized by the state. Real and personal property in the township for the 2005 levy was assessed at an adjusted taxable value of \$ 178,889,373. Taxes are due and payable by February 28. Delinquent real property taxes are returned to the County Treasurer for collection. The Township levied .9474 mills for 2005.

NOTE 2 - DESCRIPTION OF REPORTING ENTITY

In accordance with Governmental Accounting Standards Board (GASB) statement number 39 all funds, agencies, and activities of the Township of Sylvan as the primary government have been included in the financial statements.

NOTE 3 - INTERFUND BALANCES

All interfund balances are short-term in character. Interfund transfers are expected to be collected during the next reporting period. Amounts due at March 31, 2006 include:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 231,659	\$
Current Tax Collection Fund	25,691	28,620
Water and Sewer Debt Service Fund	<u> </u>	<u>228,730</u>
Totals	<u>\$ 257,350</u>	<u>\$ 257,350</u>

TOWNSHIP OF SYLVAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 4 - DEFINED CONTRIBUTION PENSION PLAN

The Township provides pension benefits to all of its employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. Employees may make voluntary contributions up to the lesser of \$7,500 or 33.3 percent of the employee's includable compensation. The Township has committed to and is currently making contributions totaling 7.65 percent of includable compensation. Full vesting takes place immediately for all contributions and related account earnings. The Township contributed \$4,716 during the year, and employees contributed \$8,214.

NOTE 5 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy adopted by the board is in accordance with Act 196 PA 1997. The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's cash deposits are as follows:

<u>Deposits</u>	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>2,268,668</u>	<u>12,577</u>	<u>2,281,245</u>	<u>2,331,294</u>
Total deposits	<u>\$ 2,368,668</u>	<u>\$ 12,577</u>	<u>\$ 2,381,245</u>	<u>\$ 2,431,294</u>

TOWNSHIP OF SYLVAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 6 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance 4/1/05	Additions	Deletions	Balance 3/31/06
Land	\$ 256,405	\$	\$	\$ 256,405
Building and improvements	764,985			764,985
Office furniture and equipment	58,123			58,123
Total cost	1,079,513			1,079,513
Accumulated depreciation	(164,567)	(27,429)		(191,996)
Total net book value	<u>\$ 914,946</u>	<u>\$ (27,429)</u>	<u>\$</u>	<u>\$ 887,517</u>

There was no debt outstanding for these capital assets at March 31, 2006. All depreciation is included in the general government expense in the Statement of Activities. Previously, the Township had recorded the capital asset of the sewer system operated by the Sylvan Township Water and Sewer Authority. A prior period adjustment was made to record the capital assets onto the books of the Authority.

NOTE 7 - LONG-TERM DEBT

The following is a summary of the Township's long-term debt for the year ended March 31, 2006:

	Balance 4/01/05	Additions	Deletions	Balance 3/31/06
<u>Contracts Payable</u>				
City of Chelsea	\$ 76,000	\$	\$ 4,000	\$ 72,000
Washtenaw County - Project #3140	11,700,000		400,000	11,300,000
Washtenaw County - Project #3240	2,501,235		158,925	2,342,310
	<u>\$ 14,277,235</u>	<u>\$</u>	<u>\$ 562,925</u>	<u>\$ 13,714,310</u>

TOWNSHIP OF SYLVAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 7 - LONG-TERM DEBT - continued

The contracts include:

1. Contract payable to the City of Chelsea to pay 6.75 percent of certain future costs that the City may incur in connection with the monitoring and remediation of the City's closed landfill site. The Township will continue to pay approximately \$4,000 a year until the project's estimated completion in 2024.
2. Contract payable to Washtenaw County for project #3140 related to the construction of the water distribution system. The loan requires semi-annual interest payments with an interest rate ranging from 3.75% and 6.75% and annual principal payments of \$400,000 to \$900,000 until its maturity in 2023.
3. Contract payable to Washtenaw County for project #3240 related to the construction of the sewage treatment lines. The loan requires semi-annual interest payments with an interest rate of 4.85% and annual principal payments of \$110,025 to \$244,500 until its maturity in 2023.

The following is a schedule of principal and interest payments to service the long-term debt of the Township:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
3/31/2007	\$ 648,500	\$ 600,704	\$ 1,249,204
3/31/2008	748,500	577,717	1,326,217
3/31/2009	748,500	551,918	1,300,418
3/31/2010	650,700	519,474	1,170,174
3/31/2011	750,700	483,764	1,234,464
4/01/2011 to 3/31/2016	3,765,235	1,951,448	5,716,683
4/01/2016 to 3/31/2021	4,370,125	1,017,782	5,387,907
4/01/2021 to 3/31/2024	<u>2,032,050</u>	<u>95,086</u>	<u>2,127,136</u>
Total	<u>\$13,714,310</u>	<u>\$ 5,797,893</u>	<u>\$19,512,203</u>

NOTE 8 - CONTINGENCIES

The Township is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Township.

NOTE 9 - PRIOR PERIOD ADJUSTMENT

Several prior period adjustments were made on both the governmental fund statements and the government-wide statements. The most significant of these entries is due to the recharacterization of the Water and Sewer Debt Service Fund from a business-type fund into a governmental debt service funds. The capital assets and related debt were removed from the balance of the governmental funds to record this fund's activity on the modified accrual basis. The prior period adjustments were as follows:

TOWNSHIP OF SYLVAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 9 - PRIOR PERIOD ADJUSTMENT continued

Governmental fund adjustments:

1. Remove cash previously thought to be held at the county to finish the construction of the water distribution system.	\$ 25,894
2. Record the special assessments on the modified accrual basis of accounting. Deferred revenues added to balance sheet	7,887,418
3. Remove bond discount from the balance sheet. Will be included only on the government-wide financial statements.	118,421
4. Remove the beginning balance of the capital assets related to the utility systems. The capital assets are being managed and maintained by the Sylvan Township Water and Sewer Authority and should be recorded in their financial statements. Current year expenditures will be treated as project costs to be contributed to the Authority.	14,781,903
5. Record a receivable for the amounts paid by the Township for start-up funds for the Authority's operating expenses. Previously, this amount was written off and expected not to be collected. However, the Township expects to collect these loans in the near future.	(126,979)
6. Remove the beginning balance of the contract payable debt from the balance sheet of the debt service fund. All current year activity will be reported in Statement of Revenues, Expenditures and Changes in Fund Balance.	<u>(14,285,901)</u>
Subtotal	<u>8,400,756</u>

Government-wide adjustments

1. Property taxes that were previously deferred should have been recognized in the previous fiscal year.	17,755
2. Joint ventures that the Township estimated to have an equity interest was shown to have no value to the Township.	332,077
3. Bond discount is recorded on the government-wide statements. Reversal of adjustment noted above.	(118,421)
4. Contracts payable is recorded on the government-wide statements. Reversal of adjustment noted above.	14,201,235
5. Beginning balance of deferred revenues for the special assessments. Reversal of adjustment noted above.	<u>(7,731,653)</u>
Subtotal	<u>6,700,993</u>
Total	<u>\$ 15,101,749</u>

TOWNSHIP OF SYLVAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 10 - PROJECT UNCERTAINTIES

The Township has entered into agreements with Washtenaw County in which the county sold bonds for approximately \$15 million on behalf of the Township to finance the construction of a sewer/water system improvements and lines. The bonds are payable over 20 years.

The Township has special assessments totaling \$6,949,491 yet to be collected while the total debt related to these projects is \$13,642,310 as of March 31, 2006. The Township believed there would be enough new utility customers to pay for the difference. However, the new customers are not forthcoming as originally planned. Recent projections of the debt service fund show possible cash flow deficits over the life of the debt obligation

The Township is considering various options to remedy the above problem.

REQUIRED
SUPPLEMENTARY
INFORMATION

TOWNSHIP OF SYLVAN
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2006

	Budgets			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 171,000	\$ 171,000	\$ 172,385	\$ 1,385
Franchise fees	10,400	10,400	12,823	2,423
Tax administration fee	70,000	70,000	68,833	(1,167)
State shared revenue	185,500	185,500	187,670	2,170
Annexation fees	2,000	2,000	2,560	560
Right of way fees		5,834	5,834	
Recycling			242	242
Charges for services	50,000	50,000	81,908	31,908
Interest	7,000	7,000	7,602	602
Rental income	9,200	9,200	9,550	350
Miscellaneous	<u>1,200</u>		<u>22,101</u>	<u>22,101</u>
Total revenues	506,300	510,934	571,508	60,574
EXPENDITURES	<u>506,300</u>	<u>553,514</u>	<u>503,358</u>	<u>50,156</u>
Excess of revenues over (under) expenditures		(42,580)	68,150	110,730
FUND BALANCE, APRIL 1, 2005	<u>525,071</u>	<u>525,071</u>	<u>525,071</u>	
FUND BALANCE, MARCH 31, 2006	<u>\$ 525,071</u>	<u>\$ 482,491</u>	<u>\$ 593,221</u>	<u>\$ 110,730</u>

The accompanying notes are an integral part of these financial statements.

GENERAL
FUND

TOWNSHIP OF SYLVAN
GENERAL FUND
BALANCE SHEET
MARCH 31, 2006

ASSETS

Cash and cash equivalents	\$ 386,584
Receivables	
Taxes	8,429
State shared revenues	31,090
Accounts	3,753
Due from other funds	<u>231,659</u>
Total assets	<u>\$ 661,515</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 12,794
Deposits - escrow	<u>55,500</u>
Total liabilities	68,294

FUND BALANCE

	<u>593,221</u>
Total liabilities and fund balance	<u>\$ 661,515</u>

TOWNSHIP OF SYLVAN
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2006

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 171,000	\$ 172,385	\$ 1,385
Franchise fees	10,400	12,823	2,423
Tax administration fee	70,000	68,833	(1,167)
State shared revenue	185,500	187,670	2,170
Annexation fees	2,000	2,560	560
Right of way fees	5,834	5,834	
Recycling		242	242
Charges for services - planning, zoning, etc.	50,000	81,908	31,908
Interest	7,000	7,602	602
Rental income	9,200	9,550	350
Miscellaneous	<u> </u>	<u>22,101</u>	<u>22,101</u>
Total revenues	510,934	571,508	60,574
EXPENDITURES	<u>553,514</u>	<u>503,358</u>	<u>50,156</u>
Excess of revenues over (under) expenditures	(42,580)	68,150	110,730
FUND BALANCE, APRIL 1, 2005	<u>525,071</u>	<u>525,071</u>	<u> </u>
FUND BALANCE, MARCH 31, 2006	<u>\$ 482,491</u>	<u>\$ 593,221</u>	<u>\$ 110,730</u>

TOWNSHIP OF SYLVAN
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
TRUSTEES			
Salaries	<u>\$ 5,400</u>	<u>\$ 5,040</u>	<u>\$ 360</u>
SUPERVISOR			
Salary		25,458	
Supplies	<u> </u>	<u> 812</u>	<u> </u>
Total supervisor	<u> 27,458</u>	<u> 26,270</u>	<u> 1,188</u>
ELECTIONS			
Supplies		47	
Assessor	<u> </u>	<u> 1,000</u>	<u> </u>
Total elections	<u> </u>	<u> 1,047</u>	<u> (1,047)</u>
ACCOUNTING AND AUDIT	<u> 39,000</u>	<u> 39,225</u>	<u> (225)</u>
ASSESSOR			
Supplies		740	
Contracted services	<u> </u>	<u> 25,800</u>	<u> </u>
Total assessor	<u> 26,800</u>	<u> 26,540</u>	<u> 260</u>
LEGAL			
Legal fees	<u> 35,000</u>	<u> 40,354</u>	<u> (5,354)</u>
CLERK			
Salary		23,320	
Deputy clerk wages		156	
Supplies	<u> </u>	<u> 240</u>	<u> </u>
Total clerk	<u> 26,820</u>	<u> 23,716</u>	<u> 3,104</u>
BOARD OF REVIEW			
Salaries	<u> 1,430</u>	<u> 1,430</u>	<u> </u>
TREASURER			
Salary		23,320	
Deputy treasurer wages		196	
Supplies	<u> </u>	<u> 906</u>	<u> </u>
Total treasurer	<u> 24,820</u>	<u> 24,422</u>	<u> 398</u>

TOWNSHIP OF SYLVAN
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - continued
FOR THE YEAR ENDED MARCH 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
BUILDING AND GROUNDS			
Supplies		2,991	
Repairs and maintenance		11,942	
Contracted services		6,275	
Telephone		4,811	
Utilities		8,778	
Miscellaneous		200	
Total building and grounds	<u>44,200</u>	<u>34,997</u>	<u>9,203</u>
UNALLOCATED			
Salaries		3,425	
Supplies		3,183	
Postage		3,590	
Telephone		400	
Printing and publishing		3,276	
Education		631	
Miscellaneous		3,615	
Payroll taxes		8,103	
Retirement		5,813	
Total unallocated	<u>30,250</u>	<u>32,036</u>	<u>(1,786)</u>
FIRE PROTECTION			
Authority contributions	<u>178,536</u>	<u>141,061</u>	<u>37,475</u>
PLANNING AND ZONING			
Salaries		9,777	
Supplies		210	
Planning consultant		42,399	
Total planning and zoning	<u>54,000</u>	<u>52,386</u>	<u>1,614</u>
BOARD OF APPEALS			
Salaries		3,330	
Contracted services		300	
Total board of appeals	<u>6,000</u>	<u>3,630</u>	<u>2,370</u>
ROADS	<u>20,000</u>	<u>18,757</u>	<u>1,243</u>

TOWNSHIP OF SYLVAN
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - continued
FOR THE YEAR ENDED MARCH 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
SEWER AND WATER PROJECTS			
Engineering	<u> </u>	<u> 724</u>	<u> (724)</u>
REFUSE/LANDFILL	<u> 1,500</u>	<u> 1,231</u>	<u> 269</u>
RECYCLING			
Salaries		<u> 570</u>	
Miscellaneous	<u> </u>	<u> 930</u>	<u> </u>
Total recycling	<u> 1,800</u>	<u> 1,500</u>	<u> 300</u>
TRANSPORTATION	<u> 2,500</u>	<u> 2,500</u>	<u> </u>
INSURANCE	<u> 28,000</u>	<u> 26,492</u>	<u> 1,508</u>
Total expenditures	<u>\$ 553,514</u>	<u>\$ 503,358</u>	<u>\$ 50,156</u>

WATER AND SEWER
DEBT FUND

TOWNSHIP OF SYLVAN
WATER AND SEWER DEBT SERVICE FUND
BALANCE SHEET
MARCH 31, 2006

ASSETS

ASSETS

Cash and cash equivalents	\$ 1,982,084	
Receivables		
Special assessments	6,949,491	
Authority	<u>363,545</u>	
Total assets		<u>\$ 9,295,120</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accrued interest payable	\$ 254,694	
Due to other funds	228,730	
Deferred revenues	<u>6,853,810</u>	
Total liabilities		\$ 7,337,234

FUND BALANCE

		<u>1,957,886</u>
Total liabilities and fund balance		<u>\$ 9,295,120</u>

TOWNSHIP OF SYLVAN
WATER AND SEWER DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 2006

REVENUES	
Connection fees	\$ 1,076,000
Special assessments	1,441,316
Interest	<u>12,101</u>
Total revenues	<u>2,529,417</u>
EXPENDITURES	
Project costs - Authority	1,552,135
Legal fees	83,704
Debt service	
Principal	558,925
Interest	<u>616,563</u>
Total expenditures	<u>2,811,327</u>
Excess of revenues over (under) expenditures	(281,910)
FUND BALANCE, APRIL 1, 2005	10,640,552
PRIOR PERIOD ADJUSTMENT	<u>(8,400,756)</u>
FUND BALANCE, MARCH 31, 2006	<u><u>\$ 1,957,886</u></u>

CURRENT TAX
FUND

TOWNSHIP OF SYLVAN
CURRENT TAX FUND
STATEMENT OF ASSETS AND LIABILITIES
MARCH 31, 2006

ASSETS

ASSETS

Cash and cash equivalents
Due from other funds

\$ 12,577
25,691

Total assets

\$ 38,268

LIABILITIES

LIABILITIES

Due to other funds
Due to other governmental units

\$ 28,620
9,648

Total liabilities

\$ 38,268

TOWNSHIP OF SYLVAN

COMMENTS
AND RECOMMENDATIONS

FOR THE YEAR ENDED MARCH 31, 2006



PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

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September 25, 2006

Board of Trustees
Township of Sylvan
18027 Old US 12
Chelsea, MI 48118

Honorable Board of Trustees:

In planning and performing our audit of the financial statements of the Township of Sylvan for the year ended March 31, 2006, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Those matters are as follows:

1. COMMENT

The special assessments levied to finance the wastewater treatment plant and collection system is considerably less than the outstanding debt owed by the Township to the bondholders.

RECOMMENDATION

The Township should evaluate its ability to fulfill its debt service requirements. This could be accomplished by adding new users or increasing sewer rates.

2. COMMENT

The current tax fund had transactions other than tax transactions posting to it and was not reconciled.

RECOMMENDATION

A trust and agency fund should be set up to handle any transactions other than current tax. The cash left in the tax fund should be reconciled prior to audit.

3. COMMENT

There were interfund receivables and payables from prior years.

RECOMMENDATION

These amounts should be repaid as soon as feasibly possible.

4. COMMENT

For the year ended March 31, 2006 we found instances where expenditures exceeded budgeted appropriations.

RECOMMENDATION

Before an actual expenditure exceeds the appropriated budget, the budget should be amended.

This letter does not affect our report dated September 25, 2006 on the financial statements of the Township of Sylvan.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various Township personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, and management of the Township of Sylvan and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants